

GIMME SHELTER

Counting wealth in offshore tax havens boosts estimates of inequality

THE AMOUNT OF WEALTH stashed in offshore tax havens has big implications for inequality. Why? Unless you can account for hidden riches, it's difficult to know how wide the disparities in wealth really are. So economists led by Berkeley's Gabriel Zucman decided to find out who owns the wealth in tax havens.

They estimated total offshore wealth at about 10 percent of world GDP in 2007, or \$5.6 trillion. About half was kept in Switzerland, the world's premier offshore banking center since the 1920s. Conveniently, the central bank of Switzerland publishes country-by-country breakdowns of offshore wealth in the nation's banks.

But what about other tax havens? In 2016, the Bank for International Settlements started to release data on the origin of bank deposits held in offshore banking centers like Jersey and Luxembourg. That made it possible to see how much money residents of Germany, for example, held in accounts in Hong Kong SAR. Zucman and his collaborators used the two data sources to estimate the ratio of offshore wealth to GDP by country.

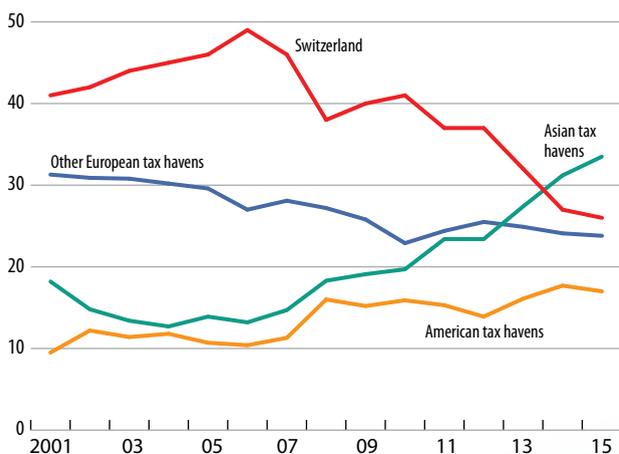
The figures vary dramatically, from just a small percentage of GDP in Scandinavia to as much as 60 percent in Russia, the Gulf states, and Latin America. Interestingly, they found connections between offshore wealth and the presence of natural resources, a history of political instability, and proximity to Switzerland.

Other data—including a leak of confidential records from the Swiss subsidiary of HSBC in 2007—suggest that the distribution of offshore wealth is heavily skewed toward the rich: about 80 percent belongs to the top 0.1 percent of households. The conclusion: accounting for offshore assets substantially boosts the wealth share of the very richest people. In other words, inequality may be far greater than other studies have found. **FD**

Prepared by F&D's LIJUN LI and CHRIS WELLISZ, based on "Who Owns the Wealth in Tax Havens? Macro Evidence and Implications for Global Inequality," by Annette Alstadsaeter, Niels Johannesen, and Gabriel Zucman, published in September 2017 by the National Bureau of Economic Research. See <https://www.nber.org/papers/w23805.pdf>

Shifting shares

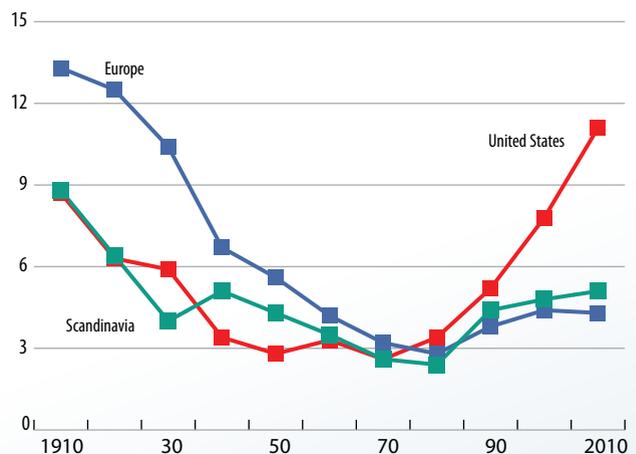
Switzerland's share of offshore bank deposits has been declining since the global financial crisis of 2008–09, while those of Asian offshore centers have been rising. (percent of the wealth held in all tax havens)



Note: American offshore centers = Cayman Islands, Panama, United States; Asian offshore centers = Bahrain, Hong Kong SAR, Macao SAR, Malaysia, Singapore as well as The Bahamas, Bermuda, and Netherland Antilles; other European centers = Austria, Belgium, Cyprus, Guernsey, Jersey, Isle of Man, Luxembourg, United Kingdom.

Time warp

In Scandinavia and Europe, the wealth of the top 0.01 percent has returned to the levels of the 1950s. In contrast, wealth is much more concentrated in the United States, where the share of the top 0.01 percent has surpassed levels of the early 20th century. (top 0.01 percent wealth share, including offshore wealth)

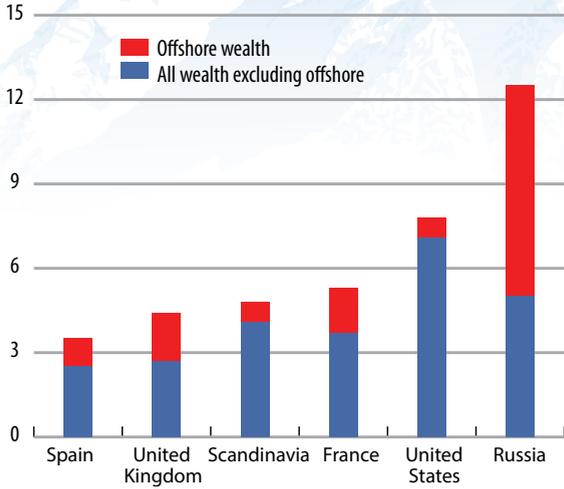


Note: Europe is the arithmetic average of France, Spain, and the United Kingdom; Scandinavia is the average of Denmark, Norway, and Sweden. Each square represents a decennial average: 1910 denotes the average of 1900, 1901, . . . , 1909; 2000 denotes the average of 2000, 2001, . . . , 2009.

Topping off

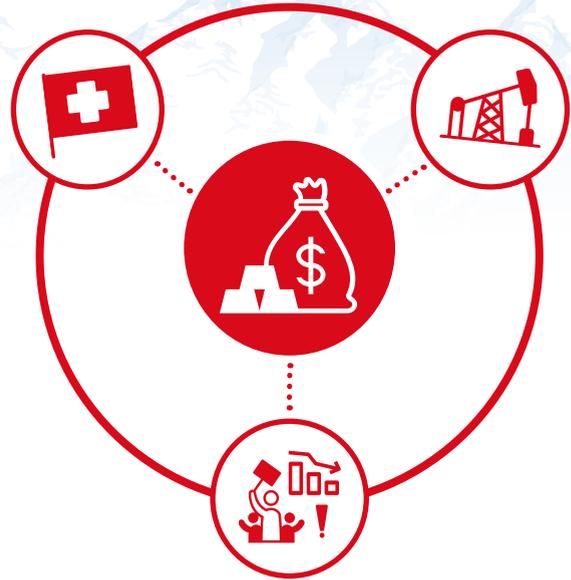
The share of wealth owned by the top 0.01 percent of society grows substantially when offshore assets are counted.

(top 0.01 percent wealth share and its composition, 2000–09 average, percent of total household wealth)



What matters?

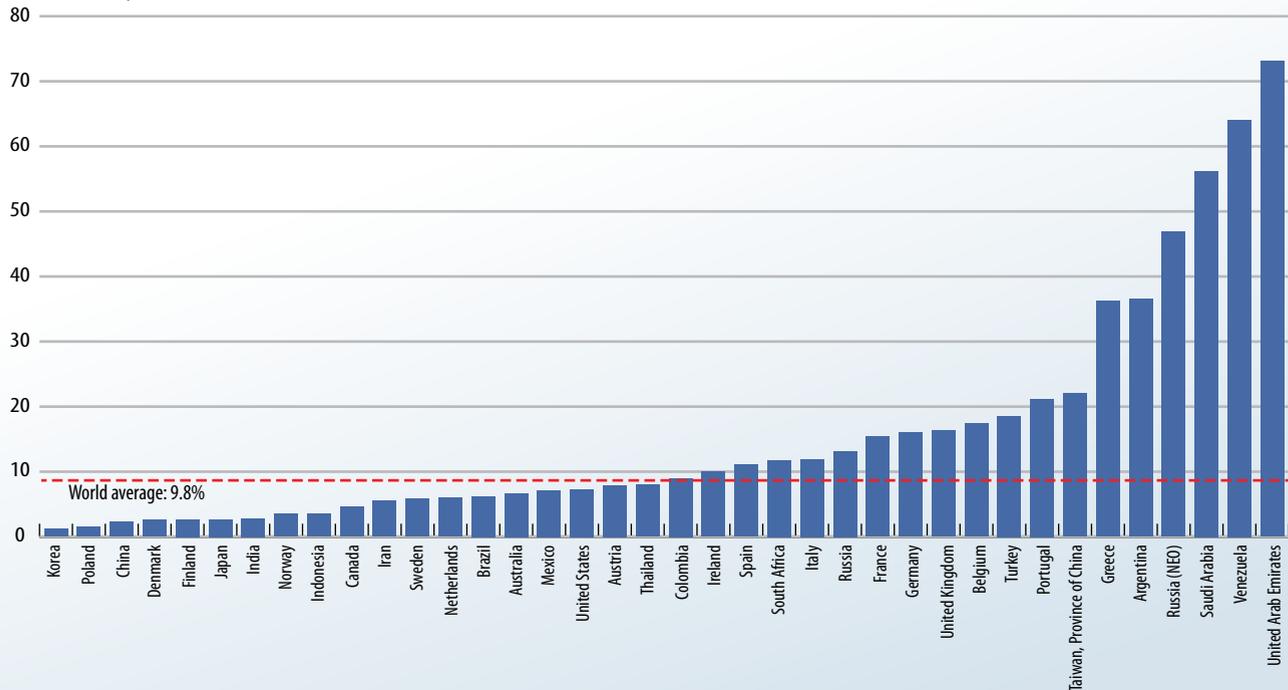
Proximity to Switzerland is associated with higher offshore wealth. So is the presence of natural resources and political and economic instability.



Global variation

The fraction of wealth held in tax havens varies considerably by country.

(offshore wealth, percent of GDP, 2007)



Note: The sample comprises all countries with more than \$200 billion in GDP in 2007. Offshore wealth is estimated by allocating the global offshore wealth estimated on the basis of the geographic distribution of bilateral cross-border bank deposits in offshore centers. Russia (NEO) denotes an alternative estimate obtained by cumulating net errors and omissions in the balance of payments. NEO = net errors and omissions.